

# State Notes

## TOPICS OF LEGISLATIVE INTEREST

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### **FAQ: Michigan Natural Resources Trust Fund** **By Jessica Runnels, Fiscal Analyst**

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One of the most fussy fund sources is the Michigan Natural Resources Trust Fund (MNRTF). The MNRTF is established in the Michigan Constitution. It functions in a simple and straightforward manner and, since it is a constitutional fund, there are no exceptions. Below are frequently asked questions about the MNRTF.

#### **Where does the MNRTF get revenue?**

According to the Article IX, Section 35 of the Michigan Constitution, the MNRTF receives revenue from "all bonuses, rentals, delayed rentals, and royalties collected or reserved by the state under provisions of leases for the extraction of nonrenewable resources from state owned lands". In other words, the MNRTF receives revenue from companies that pay for the right to extract metallic and nonmetallic minerals, oil, and natural gas from State-owned land that was purchased using the MNRTF. Individuals bid for the right to extract the minerals and then they pay a per-acre rental rate and royalties on the amount of material extracted. The rates and royalties vary depending on the type of mineral. Oil and natural gas extraction comprises the bulk of activity and revenue.

#### **What revenue does *not* go to the MNRTF?**

Under the Michigan Constitution, the MNRTF does not receive "revenues accruing under leases of state owned lands acquired with money from state or federal game and fish protection funds or revenues accruing from lands purchased with such revenues". Basically, the fund used to purchase the State land determines where revenue from royalties is deposited. Most royalty revenue is deposited into the MNRTF, but, for the land purchased with Game and Fish Protection Fund money and Federal revenue, any royalties from extraction of nonrenewable resources are deposited into the Game and Fish Protection Trust Fund, which also is established in the Michigan Constitution in Article IX, Section 41.

#### **How and when was the MNRTF created?**

The MNRTF was created in 1984 by Proposal B in the November general election; however, it was based on the Kammer Recreational Land Trust Fund, which was created in July 1976. The Kammer Recreational Land Trust Fund collected revenue from the sale of oil, gas, and mineral leases and royalties from resources extracted from State land to use for public acquisition of recreational lands. The 1984 ballot language created the MNRTF in the State Constitution and rolled the Kammer Recreational Land Trust Fund into the new fund. The 1984 Proposal B also expanded use of the Trust Fund to the development of recreational facilities, not just land acquisition, and created a cap of \$200.0 million on the principal amount of the MNRTF.

In 1994, approval of Proposal P increased the cap on the principal amount of the MNRTF from \$200.0 million to \$400.0 million.

In 2002, approval of Proposal 2 authorized additional investment options for the MNRTF and raised the cap on the Fund again, from \$400.0 million to \$500.0 million. In addition to interest



earnings, Proposal 2 authorized up to one-third of the annual revenue to be spent each year until the cap is reached.

**What do "corpus", "principal", and "permanent investment" mean? How much money is in there?**

These three terms are used interchangeably for the MNRTF. The constitutional language establishing the MNRTF requires that a portion of the money be set aside for long-term investment and a portion of the money be spent annually, primarily for land acquisition and recreation development grants. The portion dedicated for long-term investment is accounted for separately and is called the "corpus", "principal", or "permanent investment", depending on the publication. Each year, the principal amount earns interest that may be spent on projects or other uses of the MNRTF. As of September 30, 2006, the balance of the permanent investment of the MNRTF was \$312,509,000. Over the past 10 years, the permanent investment has increased by about \$20.0 million annually.

**How much revenue does the Fund receive annually and how much is distributed?**

Over the last 10 years, the MNRTF has received average annual revenue of \$58.5 million. Annual revenue to the MNRTF depends on the amount of minerals extracted and it may fluctuate a lot from year to year. The interest earnings and up to one-third of the annual revenue may be spent each year until the cap of \$500.0 million is reached. Once the cap is reached, only the interest earnings of the MNRTF may be spent and all other revenue is deposited into the permanent investment of State Parks Endowment Fund, until the cap of \$800.0 million on the Endowment Fund is reached.

At that point, the Constitution requires that the money be "distributed as provided by law". Once the principal caps of both funds are reached, it is unclear whether the annual revenue would have to be spent for the purposes of either the MNRTF or the State Parks Endowment Fund or whether it would be available for any purpose. A determination on this will not be necessary for many decades since there is a long way to go before the caps on the principal amounts of both funds are reached. (As of September, 30, 2006, the principal of the MNRTF was about \$313.0 million and the principal of the State Parks Endowment Fund was about \$123.0 million.)

**How is money in the MNRTF spent?**

The interest earnings on the permanent investment plus one-third of the annual revenue from leases and royalties are distributed annually. The balance is deposited into the permanent investment of the Fund. The Michigan Constitution also specifies that, until the MNRTF permanent investment reaches \$500.0 million, \$10.0 million in annual revenue to the MNRTF is deposited into the State Parks Endowment Fund.

The portion of the annual revenue to the MNRTF that may be spent is used for four different purposes: (1) land acquisition projects; (2) recreation development projects; (3) administration of the Fund; and (4) payments in lieu of taxes on land purchased by the Fund. Each of these purposes is identified individually in the constitutional language, along with a requirement that



local units of government provide a portion of the cost of a project funded by a grant from the MNRTF.

In fiscal year (FY) 2007-08, \$2.6 million was appropriated for administrative expenses related to the MNRTF and \$500,000 was appropriated for payments in lieu of taxes on land purchased by the State with the Fund.

Money for land acquisition projects and recreation development projects is distributed in the form of grants. Most years, the balance of the two types of grants is 75:25, with the larger portion going to acquisition projects. The Constitution states, "Not less than 25 percent of the total amounts made available for expenditure from the trust fund from any state fiscal year shall be expended for acquisition of land and rights in land and not more than 25 percent of the total amounts made available for expenditure from the trust fund from any state fiscal year shall be expended for development of public recreation facilities." The MNRTF Board may increase the ratio of acquisition projects to development projects, but a 75:25 balance maximizes the amount distributed for recreation development.

Both local units of government and State departments may apply for funding. Matching funds are required only from local units. In FY 2006-07, 54.5% of the total funding for acquisition projects was awarded to local units of government and 75.4% of the total funding for recreation development projects was awarded to local units.

### **Who gets the money and how?**

The Michigan Natural Resources Trust Fund Board annually reviews and approves grant applications from communities across the State for land acquisition and recreation development projects. The Board consists of five members: the chairperson of the Natural Resources Commission and four other members appointed by the Governor to four-year terms with the advice and consent of the Senate. The Board's recommendations are submitted to the Governor, who in turn submits them to the Legislature in an appropriation bill. Neither the Governor nor the Legislature has ever added a new project to the list submitted by the Board, although that is not prohibited in the Constitution or in statute. A handful of projects have been removed from the list by the Legislature.

The acquisition and development grants are awarded to local units of government and the Department of Natural Resources (DNR) on a reimbursement basis. Grant applicants must be a local unit of government, which may include a school district, or any combination of local units that is constituted to provide recreation. Applicants must have a recreation plan approved by the DNR to be eligible. A minimum match of 25.0% is required from local government applicants.

The Board develops annual criteria for evaluating grant applications, assigns points to each project, and funds as many projects as it can with the money available. The Board members are assisted by DNR grant management staff in reviewing all of the applications. The criteria for evaluating applications are published each year in January when the applications become available. Grant applications for recreation development and acquisition projects are due by the first week day in April. Acquisition projects also have a secondary application deadline of the first week day in August. The final project list with point scores is presented in December, at



which time the Board votes to fund the top-ranked and highest-priority projects. The entire review process, from application to grant distribution, usually takes between 12 and 18 months, depending on the appropriation process. The project evaluation criteria and possible points are shown in Table 1.

**Table 1**

<b>Evaluation Criteria For MI Natural Resources Trust Fund Projects</b>	
<b>Criteria</b>	<b>Points Available</b>
Need for Project .....	10, 30, 50
Applicant History .....	10, 30, 50
Site Quality .....	0, 10, 30, 50
Project Quality .....	0, 10, 30, 50
Protection or Use of Significant Natural Resources .....	0, 10, 30, 50
Use of Inland Water Resources .....	0, 10, 30, 50
Hunting, Fishing, and Other Wildlife-Related Opportunities .....	0, 10, 30, 50
Access Opportunities .....	0, 10, 30, 50
Population Served by Project .....	0, 15, 30, 40
Financial Need of Applicant.....	0, 20, 40
Percentage of Cash Match.....	0, 10, 20, 30, 40
Oil and Gas Impacted Areas .....	0, 15, 30, 40
Special Initiatives of the Board .....	0 - 255
<b>Total Points Available .....</b>	<b>815</b>

**Source:** Michigan Natural Resources Trust Fund Board

The last criterion on the list above is special initiatives of the Board and, in 2007, there are six special initiatives for which a project may receive points. The initiatives encourage projects that connect existing recreation opportunities (land parcels or trailways); open land to hunting, include land within an established winter deer yard or create a buffer area to sensitive habitat; involve facilities in urban areas; or provide universally accessible outdoor recreation opportunities; and projects in which no fee is charged for access to the site.

**How much land does the State own that was purchased using the MNRTF? What happens if the State sells that land?**

The State owns approximately 144,000 acres of land that were purchased using the Fund. If any of this land were sold, any revenue from the sale would be deposited back into the MNRTF.

**Will this continue indefinitely?**

Theoretically, no, it cannot continue indefinitely. The royalties and leases are paid for the extraction of nonrenewable resources. Eventually those resources will be gone or located in places where extraction is impractical or not economically viable. However, each year new deposits of minerals, oil, and natural gas are found and the State purchases more land using the MNRTF, which increases the opportunity for collecting royalties on mineral extraction.